

Chapter III

Revenue Analysis of Mizoram State Lotteries

3.1 Trend of receipts

3.1.1 Receipts realised from lotteries *vis-à-vis* target fixed

The Finance Department fixed revenue target from lottery in the budget each year by using previous year's revenue generation as a yard stick. The revenue realised from lottery by the department was on the basis of MGR and Administrative Expenses per draw.

The revenue target and revenue realisation for the period covered under audit are as given in the table below.

Table-3.1: Revenue realised *vis-à-vis* revenue target

(₹ in crore)

Year	Revenue Target	Revenue Realised	Excess (+)/shortfall (-) of revenue <i>vis-à-vis</i> targets	Percentage of variation (+) excess/(-) shortfall
(1)	(2)	(3)	(4) = (3) – (2)	(5) = (4)/(2)
2010-11	8.97	2.17	(-) 6.80	(-) 75.81
2011-12	9.10	0.45	(-) 8.65	(-) 95.05
2012-13	10.50	3.85	(-) 6.65	(-) 63.33
2013-14	8.00	9.30	(+) 1.30	(+) 16.25
2014-15	10.54	11.78	(+) 1.24	(+) 11.76
Total	47.11	27.55	(-) 19.56	(-) 41.52

Source: Figures furnished by the Directorate of Institutional Finance & State Lotteries

The shortfall in realisation during the years 2010-11 to 2012-13 ranged between 63 and 95 *per cent*. Audit noticed that the reasons for shortfall of revenue collection with reference to the target during the period 2010-11 to 2012-13 were due to temporary ban on organising lotteries between the period 18 March 2010 to 3 January 2011 and prolonged delay in selection of distributors of Mizoram State Lotteries after the enactment of the Lotteries (Regulation) Rules 2010 and the Mizoram Lotteries (Regulation) Rules 2011. Further, the revenue realised during the period 2010-11 to 2011-12 comprised recovery of outstanding dues received from the then distributors of Mizoram State Lotteries for lotteries conducted prior to 1 April 2010.

The revenue collection during 2013-14 and 2014-15 respectively were ₹ 1.30 crore (16.25 *per cent*) and ₹ 1.24 crore (11.76 *per cent*) more than the target fixed.

3.1.2 Outstanding dues remaining unrecovered from earlier period

Audit observed that there were outstanding dues recoverable from the then distributors of Mizoram State Lotteries (MSL) for lotteries organised prior to 1 April 2010 as shown below:

Table-3.2: Outstanding dues from the previous distributors (₹ in crore)

Year	Name of the Distributor	At the beginning of the year	Paid during the year	At the end of the year
2010-11	M/s Tamarai	2.16	0.01	2.15
	M/s Limras	2.67	0.63	2.04
	M/s Raunak	1.15	0.99	0.16
	M/s Jalaram	1.12	0.33	0.79
	M/s NVI	0.06	0.05	0.01
	M/s Big Star	0.15	0.15	--
	M/s NVM	0.02	0.01	0.01
	Total	7.33	2.17	5.16
2011-12	M/s Tamarai	2.15	--	2.15
	M/s Limras	2.04	0.03	2.01
	M/s Raunak	0.16	--	0.16
	M/s Jalaram	0.79	0.40	0.39
	M/s NVI	0.01	0.01	--
	M/s Big Star	--	--	--
	M/s NVM	0.01	0.01	--
	Total	5.16	0.45	4.71

Source: Figures furnished by the Directorate of Institutional Finance & State Lotteries

It can be seen from the above table that out of ₹ 7.33 crore outstanding at the beginning of the year 2010-11, the Directorate could recover only ₹ 2.17 crore during the year and ₹ 0.45 crore during 2011-12 leaving an outstanding balance of ₹ 4.71 crore. The amount of ₹ 4.71 crore remained unrecovered till March 2016. In the absence of any penal clause or provision for interest on delayed payments, the Department do not have any support to ensure speedy recovery.

In reply to audit query, the Director stated (April 2016) that to recover the respective outstanding dues of ₹ 2.15 crore, ₹ 2.01 crore and ₹ 0.16 crore from M/s Tamarai, M/s Limras and M/s Raunak, legal money Suits¹ were filed in the court at Aizawl. Further, it was stated that in case of M/s Limras, the court had directed (June 2011) the distributor to clear their dues within one year; however, the whereabouts of the distributor was not known to the Directorate till date of Audit (March 2016). The Government replied (June 2016) that in case of M/s Jalaram, State Lottery Committee decided that the distributor be pressed upon to make full recovery of the outstanding dues of ₹ 0.39 crore.

The fact, however, remained that no action has been taken by the department to recover the outstanding dues from M/s Jalaram till date of Audit (March 2016).

Thus, the failure of the Directorate to obtain sufficient bank guarantee to protect the interest of the Government has led to such a situation.

¹ 64 of 2012, 47 of 2011 and 133 of 2011

3.1.3 Receipts from lottery vis-à-vis cost of collection

The expenses under the head of accounts - Direction and Administration of the Directorate of IF&SL have been taken as cost of collection² of revenue from lottery.

The receipts realised from lottery vis-à-vis cost of collection during the period 2010-11 to 2014-15 is as given below:

Table-3.3: Revenue realised vis-à-vis cost of collection

(₹ in crore)

Year	Revenue realised	Cost of Collection	Ratio of cost of collection vis-à-vis revenue realised
(1)	(2)	(3)	(4) = (3)/(2)
2010-11	2.17	2.11	97.24
2011-12	0.45	2.26	502.22
2012-13	3.85	2.90	75.32
2013-14	9.30	3.25	34.95
2014-15	11.78	3.37	28.61
Total	27.55	13.89	50.42

Source: Figures furnished by the Directorate of Institutional Finance & State Lotteries

Audit noticed that the high cost of collection during 2010-11 (97.24 per cent) and 2011-12 (502.22 per cent) in relation to revenue realised during the years was due to temporary ban on organising lotteries during the period 18 March 2010 to 3 January 2011 and delay in selection of distributors of Mizoram State Lotteries after lifting the ban.

The cost of collection during 2012-13 was ₹ 2.90 crore, which was 75 per cent of the revenue realised (₹ 3.85 crore) during the year. This was due to non-recovery of sale proceeds from one distributor—M/s N.V. International for a certain period as an adjustment towards compensation³ of ₹ 2.89 crore. Delay in recovery of MGR was also responsible for lower revenue realisation during the year 2012-13. The overall cost of collection during 2010-11 to 2014-15 was ₹ 13.89 crore, which was half (50.42 per cent) of the total revenue realised (₹ 27.55 crore) during the five years.

Even without considering the years 2010-11 to 2012-13 where the revenue realisation was affected due to the reasons discussed above, the overall cost of collection (₹ 6.62 crore) during 2013-14 to 2014-15 was 31.40 per cent of the revenue realised (₹ 21.08 crore). Thus, almost one third of the revenue collected was utilised in the collection process.

The Government replied (June 2016) that the high cost of collection was due to inclusion of salaries, TA/DA, Medical Treatment, maintenance expenditure *etc.*, of the office in the cost of collection.

² Direction and Administration expenses under the head 2075(00)(103)(01) and 2047(00)(103)(01). Expenses under the head 2047(00)(103)(01) has been taken into account in the cost of collection as the Directorate stated that even though fund is allocated under this head, all staff and expenses under this head were utilised for activities related to lottery only

³ Paid by the State as a result of settlement of arbitration proceeding No. 1 of 2003 in the Court of the Arbitrator Justice (Rtd.) H.K.K. Singh.

The reply is not acceptable as the expenses under the head of salaries, TA/DA, Medical Treatment, maintenance expenditure *etc.*, are the components of Direction and Administration which is usually taken as cost of collection of revenue for revenue departments. Thus, it shows that the administrative cost in the Directorate of IF&SL were very high.

3.2 Loss to the exchequer

The present system of realising Minimum Guaranteed Revenue (MGR) from the distributors instead of getting entire sale proceeds has been discussed in **Chapter-II** of this report. This system has resulted into substantial loss of revenue to the Government and large financial benefits to the distributors. The loss sustained to the State Government's exchequer due to the faulty agreements is discussed in the succeeding paragraphs.

The aggregate face value of the tickets printed *vis-a-vis* the revenue realised (up to March 2015) through operation of lotteries for the period covered under audit are as tabulated below:

Table-3.4: Revenue realised *vis-à-vis* aggregate face value of tickets sold
(₹in crore)

Year	Total sale proceeds	State share of revenue	Percentage increase over previous years		Percentage of State share of revenue <i>vis-à-vis</i> total sale proceeds
			face value of tickets sold	Government revenue	
2012-13 ⁴	2,290.33 ⁵	3.85	--	--	0.17
2013-14	2,972.19 ⁶	9.30	29.77	141.56	0.31
2014-15	6,571.70 ⁷	11.78	121.11	26.67	0.18
Total	11,834.22	24.93	--	--	0.21

Source: Figures furnished by the Directorate of Institutional Finance & State Lotteries

In the UK, the revenue realisation⁸ from UK National Lottery was 24.35 *per cent* of gross ticket sales in 2013-14 and 22.93 *per cent* of gross ticket sales in 2014-15. In the US, the total revenue realisation⁹ from all the State Lotteries was 28.43 *per cent* of gross sale in 2012-13 and 28.41 *per cent* of gross sale in 2013-14. For Kerala State Lotteries, the percentage of profit out of the revenue realised during 2009-14 was 22.91 *per cent*. It is evident from the table that the Government did not realise even half *per cent* of the total sale proceeds of the tickets.

⁴ During the years 2010-11 and 2011-12, Mizoram State Lottery was not organised by the Government. Revenue realised during these years were ₹ 2.17 crore in 2010-11 and ₹ 0.45 crore in 2011-12 which were outstanding dues collected from the then distributors for lotteries organized prior to 1 April 2010

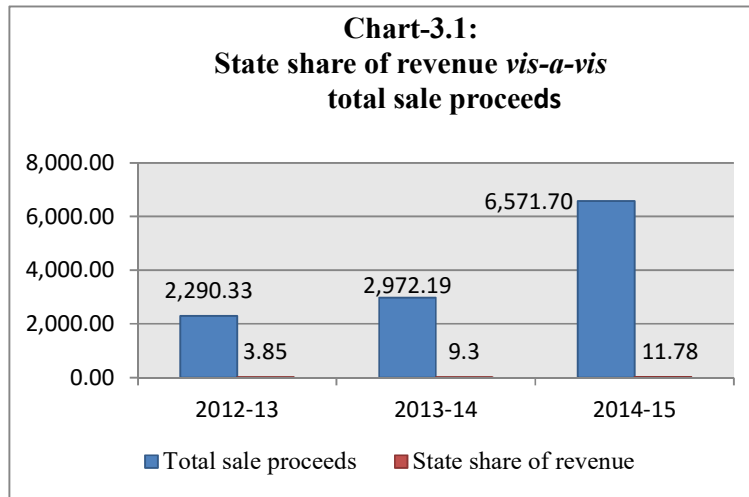
⁵ 1,308.88 (Teesta) + 168.60 (Summit) + 639.01 (NVI) + 173.84 (E-Cool) = 2,290.33

⁶ 528.90 (Teesta) + 1,114.38 (Summit) + 945.86 (NVI) + 383.05 (E-Cool) = 2,972.19

⁷ 3,598.92 (Teesta) + 1,579.20 (Summit) + 1,005.66 (NVI) + 387.92 (E-Cool) = 6,571.70

⁸ Group and Company financial statements for the year ended 31 March 2015 for Camelot UK Lotteries (Source: <http://www.camelotgroup.co.uk/documents/pdf/CamelotFinancialStatement2014-15>)

⁹ Lottery Sales and Transfers, North American Association of State and Provincial Lotteries (Source: <http://www.naspl.org/index.cfm?fuseaction=content&menuid=17&pageid=1025>)



The **Chart-3.1** shows state share of revenue with respect to total sale proceeds. The total sale proceeds of tickets rose in a steep curve from ₹ 2290.33 crore in 2012-13 to ₹ 6571.70 crore in 2014-15. As against it the Government's share increased

minimally from ₹ 3.85 crore in 2012-13 to ₹ 11.78 crore in 2014-15. It can also be seen that though the total sale proceeds increased from ₹ 2,972.19 crore in 2013-14 to ₹ 6,571.70 crore in 2014-15, the Government's share of revenue increased from ₹ 9.30 crore to ₹ 11.78 crore *i.e.*, ₹ 2.48 crore only.

The main factor contributing to this was fixing the revenue realizable from lottery per draw at the MGR which had no relation to the volume of sale of lottery tickets. Thus, in the agreement, the distributors' revenue was without bounds, while the Government's revenue was capped by the MGR formula. This had resulted in inequitable sharing of revenue between the distributors and the Government which resulted in large revenue loss to the State exchequer.

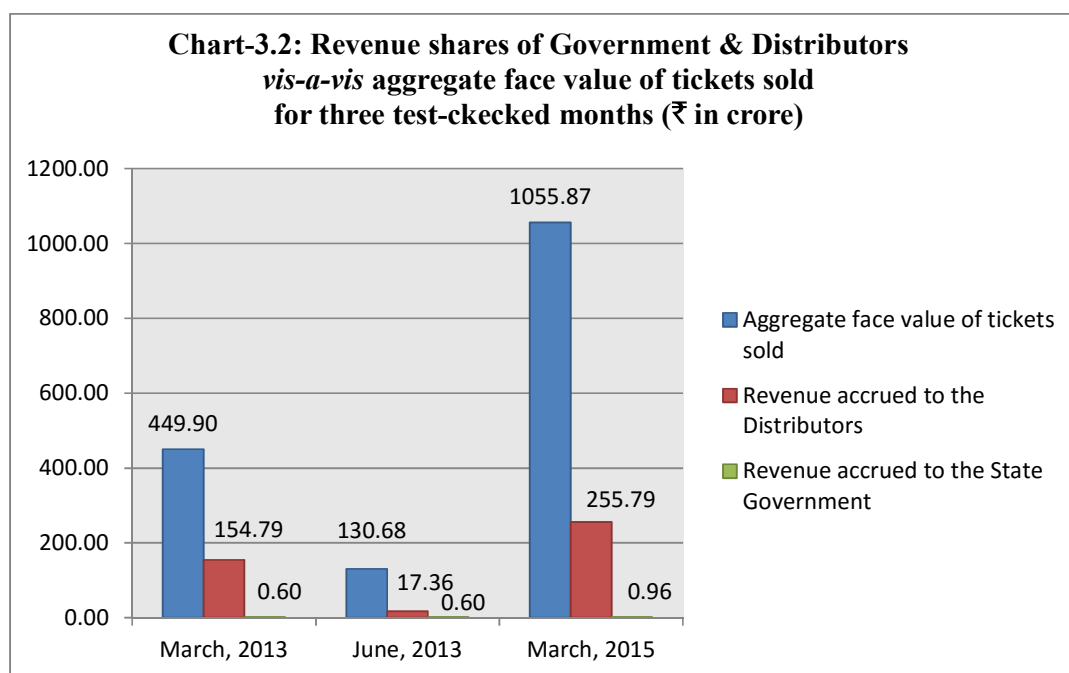
Audit test checked records of three months (March 2013, June 2013 and March 2015) and worked out the revenue accrued to the distributors after deducting various expenses as given below:

Table-3.5: Expenses and revenue accrued to distributors during three test-checked months

(₹ in crore)

Month & Year	Name	Total Sale	Prize up to	Prize above	Revenue to Government	Printing Cost	Taxes paid to other State	Total Expenditure	Revenue to Distributor	
			₹10,000							
March 2013	Teesta	332.22	182.67	0.85	0.20	1.21	3.33	188.30	143.92	
	Un-claimed prize ₹ 4,00,000									
	NVI	80.76	72.36	-	-	-	1.00	73.36	7.40	
	Summit	7.75	6.70	-	0.20	-	0.51	7.41	0.34	
	E-Cool	29.17	24.83		0.20	-	1.01	26.04	3.13	
	Total	449.90	286.56	0.85	0.60	1.21	5.85	295.11	154.79	
June 2013	Teesta	28.88	19.75	0.66	0.20	0.14	0.73	21.48	7.40	
	NVI	67.71	60.31	-	-	-	1.03	61.34	6.37	
	Summit	6.57	5.52	-	0.20	-	0.50	6.22	0.35	
	E-Cool	27.52	23.07		0.20	-	1.01	24.28	3.24	
		Total	130.68	108.65	0.66	0.60	0.14	3.27	113.32	17.36
March 2015	Teesta	781.10	542.27	1.11	0.24	3.56	3.53	550.71	230.39	
	NVI	90.03	80.91	0.12	0.24	-	0.52	81.79	8.24	
	Summit	145.78	130.31	-	0.24	-	1.32	131.87	13.91	
	E-Cool	38.96	33.95	0.11	0.24	-	1.41	35.71	3.25	
		Total	1055.87	787.44	1.34	0.96	3.56	6.78	800.08	255.79

Source: Departmental figures



It can be seen from the above table and chart that while the distributors' revenue follows the trend of the gross sale, picking up when gross sale picks up depending upon market condition, festive season etc., the Government's share of revenue always remained stagnant at under ₹ one crore in all the months.

All the expenses related to lottery viz. prize pay-out, printing cost, tax/charges, cost of publication of results etc., are incurred by the distributors and state Government is only realising MGR per draw from the distributors. Thus, the revenue sharing model does not depict the picture of a State-organised lottery. On the contrary, it paints a picture of a State-authorized lottery, the State being the licensor here and the distributors, the licensee in this relationship.

The table below summarises various expenses related to lottery and revenue accrued to the Government and the distributors during the audit period.

Table - 3.6: Revenue accrued to distributors during the audit period

(₹in crore)										
Year	Name of distributor	Gross Sale	Prize up to ₹ 10,000	Prize above ₹ 10,000	Un-claimed prize deposited	Rev. to Govt.	Printing cost	Taxes paid to other State	Total Exp.	Rev. to Distributor
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(4) to (9)	(3)-(10)
2012-13	Teesta	1,308.88	880.08	4.00	0.15	2.06	5.11	18.26	909.66	399.22
	NVI	639.01	570.34	--	--	--	--	7.95	578.29	60.72
	Summit	168.60	142.57	--	--	1.84	--	13.34	157.75	10.85
	E-Cool	173.84	146.79	--	--	1.79	--	6.97	155.55	18.29
	Total	2,290.33	1,739.78	4.00	0.15	5.69	5.11	46.52	1,801.25	489.08
2013-14	Teesta	528.90	374.10	9.14	1.01	2.57	2.65	8.73	398.20	130.70
	NVI	945.86	844.62	--	--	1.34	--	12.39	858.35	87.51
	Summit	1,114.38	1003.91	--	0.01	2.40	--	10.96	1017.28	97.10
	E-Cool	383.05	325.20	--	--	2.45	--	12.17	339.82	43.23
	Total	2,972.19	2,547.83	9.14	1.02	8.76	2.65	44.25	2,613.65	358.54
2014-15	Teesta	3,598.92	2487.39	10.21	0.22	2.75	17.09	18.04	2535.7	1,063.22
	NVI	1,005.66	900.63	0.02	--	2.75	--	8.26	911.66	94.00
	Summit	1,579.20	1421.39	--	0.01	2.75	--	10.24	1434.39	144.81
	E-Cool	387.92	339.79	0.40	0.01	2.75	--	11.83	354.78	33.14
	Total	6,571.70	5,149.20	10.63	0.24	11.00	17.09	48.37	5,236.53	1,335.17
Grand Total		11,834.22	9,436.81	23.77	1.41	25.45	24.85	139.14	9,651.43	2,182.79
Percentage of Gross Sale		100	79.74	0.20	0.01	0.22	0.21	1.18	81.56	18.44

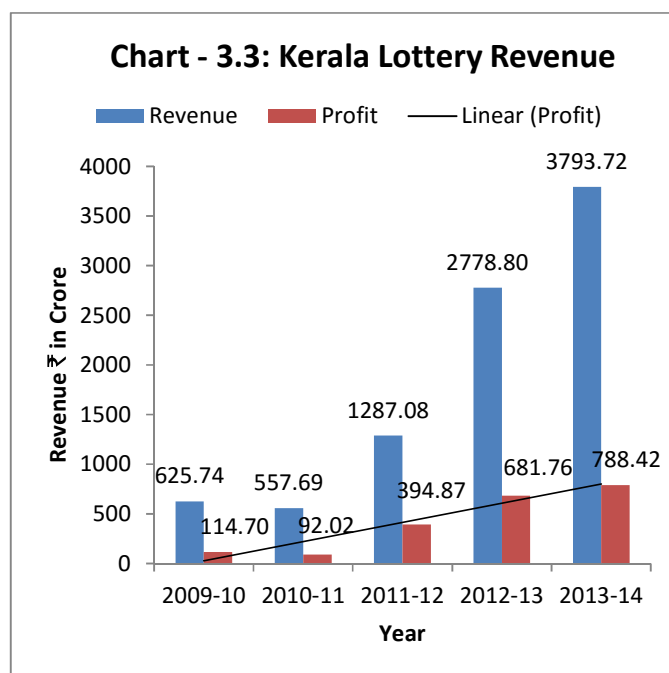
Source: Departmental records

It can be seen from the table above that out of the total sale proceeds of ₹ 11,834 crore during 2012-13 to 2014-15, the distributors deposited only ₹ 25 crore (as Minimum Guaranteed Revenue and Administrative Expenses) to the Consolidated Fund of the State till date of Audit (March 2016). In violation of Rule 3(17) read with 2(h) of Lotteries (Regulation) Rules 2010, the distributors neither deposited the balance amount of ₹ 11,809 crore to the Consolidated Fund of the State nor it was demanded by the Government.

Thus, against the revenue accrued to the distributors of ₹ 2,182 79 crore (18.44 per cent of the gross sale) during 2012-13 to 2014-15, the Government received a paltry revenue of ₹ 25.45 crore (0.22 per cent of the gross sale).

The Government replied (June 2016) that it could not get good offers from the bidders in the second invitation for Expression of Interest (IEI) dated 20 December 2011 because of increase in draw charges in West Bengal from ₹ one lakh to ₹ five lakh per draw w.e.f. 28 November 2011.

Ironically, the other states are generating more revenue per draw out of Mizoram State Lottery than the State of Mizoram as brought out at **Paragraph-2.2.2 in Chapter-II**.



As a matter of fact, the Kerala Government is following the Lottery Rules 2010 by depositing the gross sale proceeds calculated at the face value of tickets to the Consolidated Fund of the State. After selling the tickets at 26-28 per cent discounted value and giving less than five per cent of gross sales as commission to the agents, the revenue as well as profit from the lottery has been increasing every year during 2009-10 to 2013-14 except 2010-11 as shown in the **Chart-3.3** alongside.

If Mizoram had also followed the lottery rules in the true letter and spirit, by depositing the gross sale proceeds calculated at the face value of tickets to the Consolidated Fund of the State, the net revenue after deduction of commission for the distributors would have accrued to the State exchequer.